

Initiating Coverage
December 13, 2010

Allahabad Bank Ltd.



Hetal Shah, Analyst
(hetal@keynoteindia.net)
(+9122-30266059)

Allahabad Bank

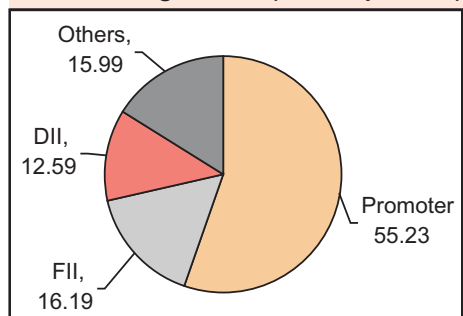
Bank with asset quality...

December 13, 2010

Key Stock Data	
Sector	Public Sector Bank
CMP	₹208.10
52-wk High / Low	₹271/121
Market Cap	₹92.96bn (\$2065mn)
Avg 6m daily vol.	156033
BSE Sensex	19508.89
Reco	'Buy'
TP	₹250

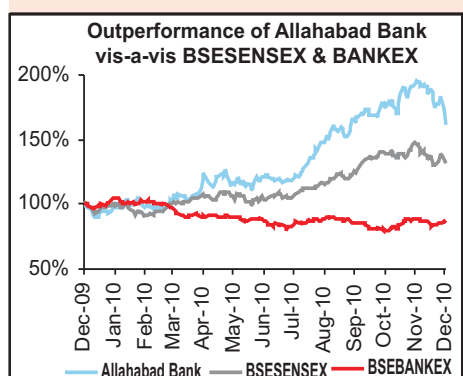
Stock Codes	
Bloomberg Code	ALBK.IN
Reuters Code	ALBK.BO
BSE Code	532480
NSE Code	ALBK
Face Value	₹10per share

Shareholding Pattern (30th Sept, 2010)



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-22.0%	-10.2%	22.9%	54.6%

Stock Price Performance



Allahabad Bank Ltd, a public sector bank is headquartered in Kolkata since 1923 with an asset size of ~₹1217bn and network of 2286 branches as of Mar-10, has a pan-Indian presence with a strong foothold in eastern and northern India. The bank was nationalized in 1969 by GOI along with 13 other major commercial banks. It has a strong and experienced team headed by Mr. J P Dua, CMD, which reinforces confidence in the bank's ability to deliver balanced growth and is expected to outperform the Indian banking industry. The bank's wholly-owned subsidiary namely, AllBank Finance Ltd (ABFL) is into investment banking and other corporate fee-based activities. The bank entered into Insurance joint venture namely, Universal Sampo General Insurance with Indian Overseas Bank, Karnataka Bank Limited, Dabur Investments and Sampo Japan Insurance Inc.

- **Healthy growth in business:** The bank reported healthy growth in business driven by 21.8% yoy growth in advances and 24.8% in deposits leading to the improvement in CD ratio and margins.
- **Improved and Stabilized Deposit Mobilization:** Higher share of CASA on the liability side and further branch expansion to strengthen it, enables the bank to earn high CASA per branch.
- **Diversified Loan portfolio:** The loan book is well-diversified and spread across the corporate, retail and agriculture segments and is expected to grow above 25% in FY11, much above RBI target of 20%.
- **Efficient Asset-liability management leading to improvement in margins:** The maturity pattern of the bank's deposits as of FY10 indicates that half of its deposits are pegged for the long term (more than one year) and excess liquidity is deployed in low-yielding short term securities. Hence, assets-liability position shows that the margins will be sustained around 3% in future i.e. above industry average and most of its peers
- **Strong Asset Quality:** The asset quality of the bank is comfortable and has maintained consistency and reduced the gross and net NPA ratios.

(continued...)

Key Financials

Particulars	FY08	FY09	FY10	FY11E	FY12E
Advances	49720.47	58801.76	71604.87	92145.97	106948.76
Deposits	71616.38	84971.79	106055.75	127266.90	146356.94
NII	1726.40	2158.67	2650.49	3960.52	4891.67
Total Income	7135.98	8506.66	9885.11	12304.03	14730.97
Profit after Tax	974.75	768.60	1206.33	1481.14	1764.06
EPS (₹)	21.82	17.21	27.01	33.16	39.49
Book Value (₹)	116.88	131.00	151.17	176.71	207.41
Adjusted Book Value (₹)	88.27	102.00	121.20	143.15	167.25
RONW (%)	20.1%	13.9%	19.1%	20.2%	20.6%
ROA (%)	1.3%	0.9%	1.1%	1.1%	1.1%

(E- Keynote Capitals Institutional Research Estimates)

- **Comfortable CAR, high ROE to sustain future growth prospects:** The bank is well capitalized and in a position to meet lending targets in coming years. ROE and ROA will increase gradually in coming years because of strong growth in business and core operating performance.
- **Well maintained cost leading to improvement in productivity ratios:** Better cost efficiency measures in place, branch expansion and thereby increasing profitability has led to the enhancement of the branch and employee productivity ratios.

The key concerns of the banks would be:

- a) Rise in NPAs could lead to higher provisioning than estimated, impacting profit growth and ROE.
- b) Competition from other PSU private banks.

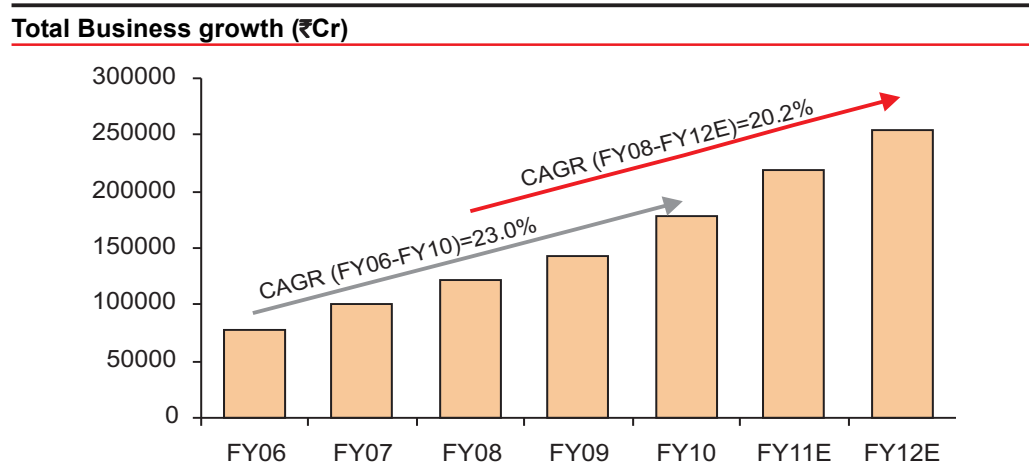
Investment Rationale:

1. Healthy growth in Business

The total business of the bank is expected to grow at a healthy pace. The credit and deposits of the bank grew 24.1% (yoy) and 22.2% yoy in 1QFY11 as against the industry average of 21.7% yoy and 14.8% (yoy) respectively. However, a large position of the growth (₹1.62 lakh crore) registered during 1QFY11 by the banking industry was due to the demand from the infrastructure sector and telecom companies for the 3G and wireless broadband auctions. The bank reported 36.8% yoy growth in advances and 30.2% yoy in deposits during 2QFY11, despite the slowdown in the business growth of the banking industry on account of repayment of the short term funds availed in the first quarter and an increase in the interest rates following the introduction of the base rates. The bank's management intends to maintain this thrust and is taking strategic initiatives to ensure rapid growth. Further, the bank's lucrative branch profile gives it significant business opportunities by allowing it to leverage its wide network in eastern and northern India to raise low-cost deposits and lend to high-yielding credit businesses.

The gross bank credit of the Indian banking industry is expected to grow ~20% in FY11, led by healthy demand from Corporate, MSME and retail verticals. We expect the bank's advances and deposits to grow at 28.7% and 20% in FY11, above industry average. Further, we project a business growth of the bank around 23.5% during the current year as it has started focusing on Retail Business, Loan Syndication, Sale of Gold Coins and Bancassurance etc. in addition to the core banking activities.

Chart 1



(E: Keynote Capitals Institutional Research Estimates)

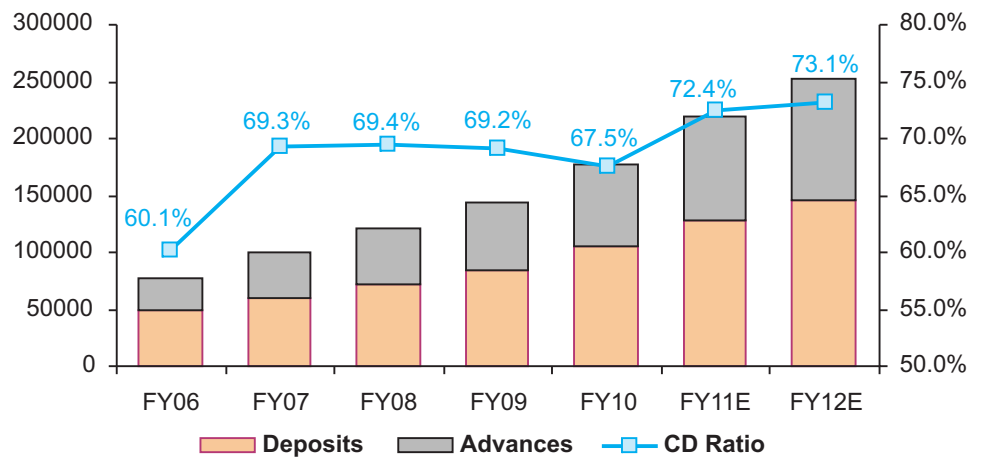
Increase in CD Ratio as economy is in revival phase

Improvement is expected in its credit-deposit (CD) ratio to 73.1% in FY12E from 67.5% in FY10, leading to better yield on advances and improvement in utilization of funds. The current incremental CD ratio of the banking system is hovering above 70%, which indicates relatively strong demand in credit disbursement compared with deposit mobilization. We see this trend continuing in FY11 and FY12 as economic activity is expected to pick up substantially in coming years.

The normal monsoon which will boost agricultural output & rural demand and also major thrust on MSME & Retail sector by the bank will ensure the advances growth more than deposit mobilization leading to increase in CD ratio of the bank in future.

Chart 2

Business Mix (₹Cr)



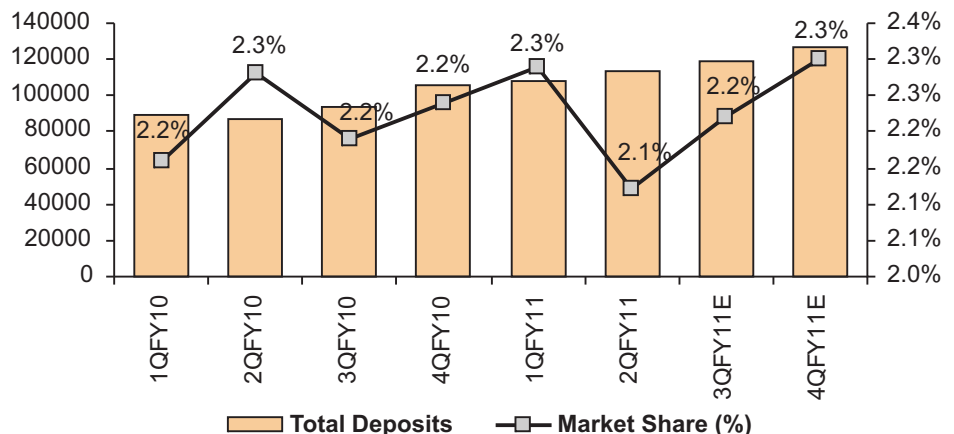
(E: Keynote Capitals Institutional Research Estimates)

2. Improved and Stabilized Deposit Mobilization:

The deposits of the Indian banking sector stood at ₹47.9lakh cr as on October 8, 2010, reporting a 15.1% growth yoy. The growth in aggregate deposits from March to August 2010 was 4.1%, while it increased to 6.7% by October 8, 2010. Primarily, the growth has highly risen in September 2010 due to the hike in deposit rates by most of the banks. As per the management's guidance, the deposit growth of the bank in current fiscal is around 25%. Efforts like branch expansion, focusing on campaigns etc. are undertaken to meet the target growth thereby resulting in increase in the market share of deposits.

Chart 3

Deposit - Market share (%)



(E: Keynote Capitals Institutional Research Estimates)

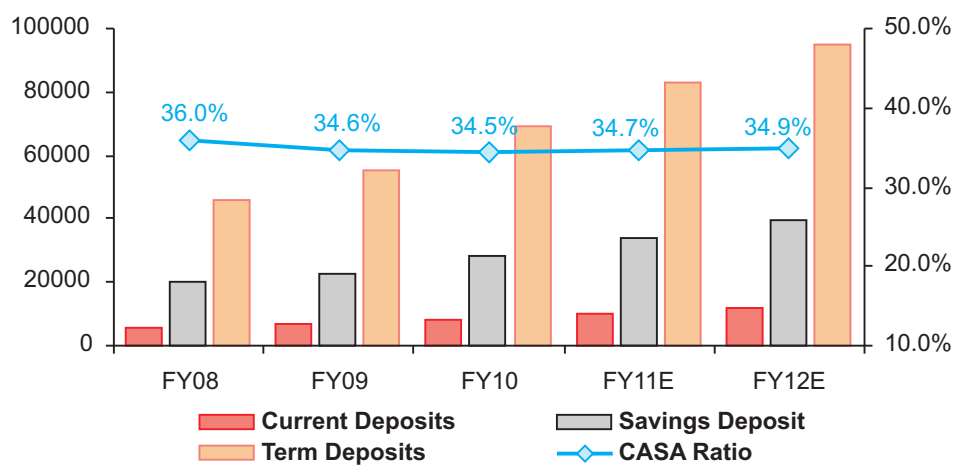
High concentration of CASA in the deposit portfolio

The bank is gradually increasing its focus on Certificates of deposits from the bulk deposits segment. The management expects to mobilize around ₹5000 7000cr in CDs in current fiscal by introducing a scheme of 500 days at 7.5%. Once this amount is received, CDs will be replaced by the regular business i.e. CASA. The emphasis on low cost deposits mobilization and deposits mobilization campaign were undertaken during the year leading to CASA growth of ~ 24.8%.

However, the growth rate of time deposits has shown a moderate growth since July 2010 due to the efforts made by banks for mobilization of high cost deposits and reducing its size of bulk deposit to total deposit. Increased inflow into CASA schemes is also seen as they yield higher returns than time deposits.

Chart 4

Business Mix (₹Cr)

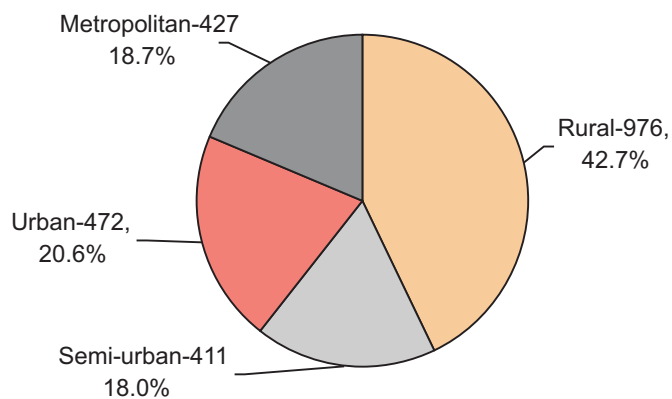


(E: Keynote Capitals Institutional Research Estimates)

CASA ratio of the bank has always been on the higher side hovering at 35% on an average between FY08 and FY10, mainly on account of its branches (~61%) located in rural & semi-urban areas. More than 75% of the branch network has major concentration on the eastern and northern part of the country i.e. UP, Jharkhand, Madhya Pradesh and West Bengal which are well-known for being rich in CASA. These States have CASA ratios ranging between 40 - 50%.

Chart 5

No of branches-FY10 (2286)



Branch expansion to strengthen the CASA ratio

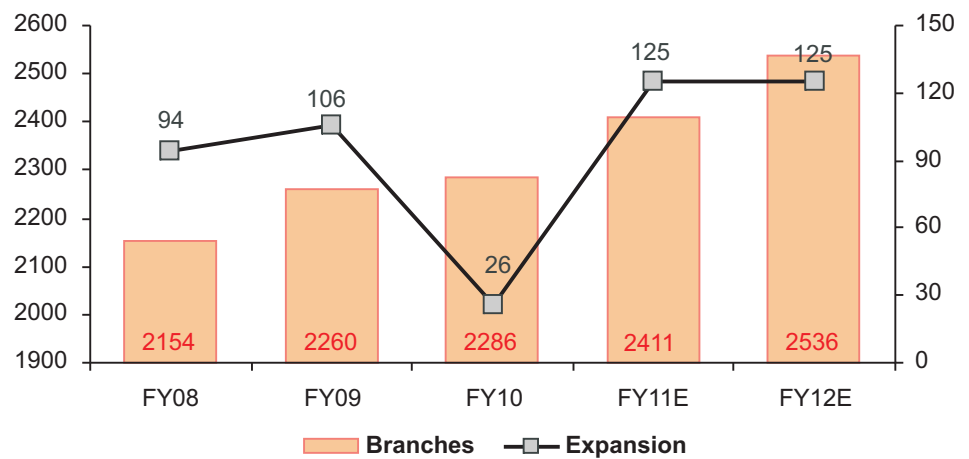
(Source: Company & Keynote Capitals Institutional Research)

The bank has opened 48 New Branches during 2QFY11 and 78 new branches during 2HFY11, taking the total number of branches to 2364 as on Sept-10 end, of which 980 are Rural, 434 are Semi-Urban, 500 are Urban and 450 are Metropolitan. Besides, it has another 43 fresh authorizations in hand for opening more New Branches, which will be opened coming quarters.

The bank also has plans to expand its branch network in the southern and the western part of India, to increase its market share, CASA Ratio and CD ratio. Further, the process to spread out overseas has already been initiated by opening its first foreign branch at Hong Kong and representative office at Shenzhen, China. With the stabilization of operation in the first overseas branch, the bank is now looking ahead to transcend over upcoming economies of the globe like Asian / African countries i.e. Kenya, Tanzania, New Zealand, Australia, China etc. and planning to open its overseas branches. A representative office at Dhaka, Bangladesh is also being contemplated after receipt of approval from Reserve Bank of India and Government of Bangladesh.

Chart 6

Branch Expansion

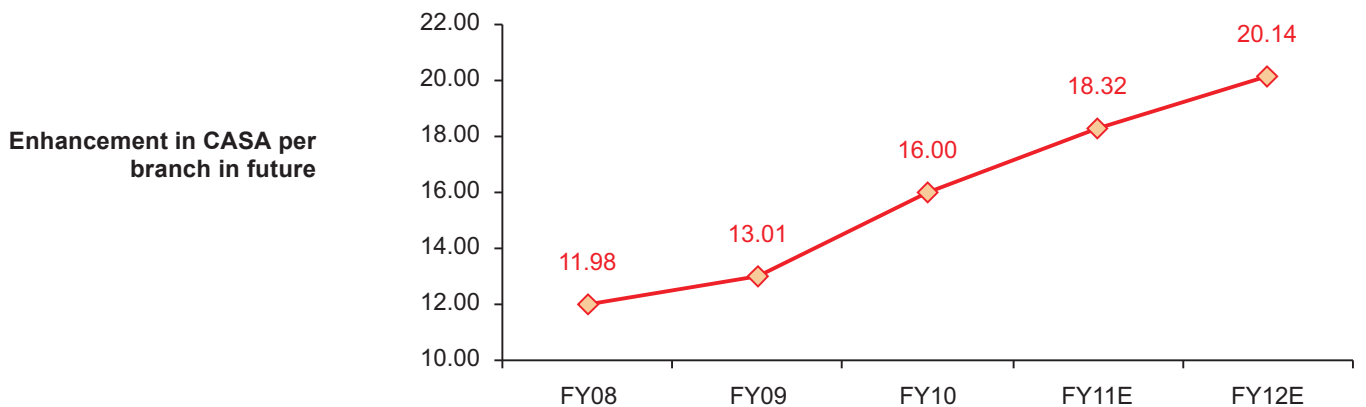


(E: Keynote Capitals Institutional Research Estimates)

We expect the bank to maintain its CASA ratio at ~35% in FY11E & FY12E, mainly on account of planned branch expansion and various schemes which may yield higher CASA per branch in coming years.

Chart 7

Casa per branch (₹Cr)



(E: Keynote Capitals Institutional Research Estimates)

3. Diversified Loan portfolio

The credit off-take is expected to be substantially higher in the 2HFY11 because of higher credit demand in India due to the festive and agricultural harvest season in the second half of each year. Further, banks have sanctioned loans for the large infrastructure projects, which have obtained the necessary approvals and are expected to draw down loans soon. Also the growth in the Index of Industrial Production (IIP) indicates that the manufacturing sector may soon require to set their capital expenditure programmes on fast track, enable to raise more funds to meet the working capital requirements. The loan book of the bank grew at 25.2% CAGR in FY06-10 and it is expected to grow at 22.2% CAGR during FY10-12E. As of 2QFY11, the loan book stood at ₹83183cr, credit growth of 36.8% yoy. Hence it would grow above 25% in FY11, much above RBI target of 20%.

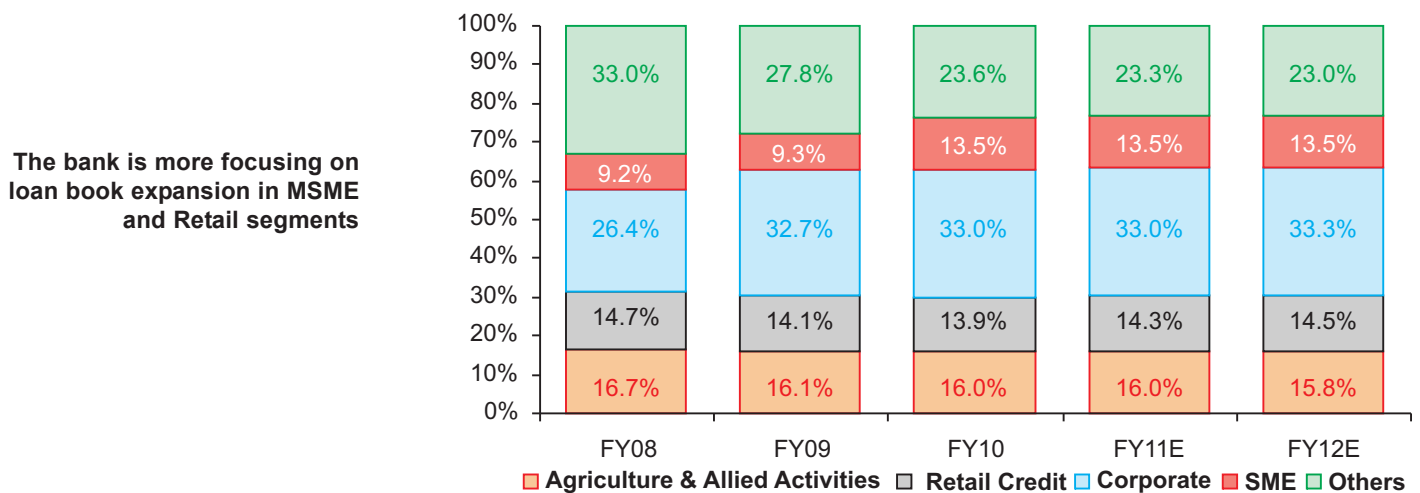
The loan book is well-diversified and spread across the corporate, retail and agriculture segments. Of the total agricultural advances target of 18%, direct agricultural lending is pegged at 13.5% and indirect lending is capped at 4.5%. The bank has exceeded the target of agriculture loans to Adjusted Net Bank Credit (ANBC) by achieving 18.68% as on FY10.

The loan portfolio is expected to further tilt towards mid-corporate, SME and retail loans. The bank has launched three new structured products to increase their credit disbursement in different verticals:

1. Financing Doctors for Nursing Homes/Clinics.
2. Construction of Godown under lease with FCI/Government Agencies.
3. Financing Seed Processing Units.

Chart 8

Loan Book



The bank is more focusing on loan book expansion in MSME and Retail segments

(E: Keynote Capitals Institutional Research Estimates)

From the advances portfolio in the last few quarters, it is seen that the bank has shifted its focus from priority sector to the high yielding business i.e. retail and SME & MSME segment. As per the RBI guidelines, the scheduled commercial banks have to allocate 60% of the MSEs advances to the micro enterprises in following stages: 50% in FY10, 55% in FY11 and 60% in FY12-13. Further, banks were mandated to achieve a 10% annual growth in the number of micro enterprise accounts and a 20% yoy growth in credit to the MSE sector. And the bank's share of Micro Enterprises to total MSEs has exceeded the target by achieving 62.25% as on FY10 and achieved the growth well above the mandate. The SME loan book increased by 77.4% yoy in FY10 and contributes around 13.5% to the total loan book.

Aggressive loan growth in this segment is positively impacting yield on funds of the bank and is expected that it will sustain in the coming years as the bank is aggressively pursuing this segment and has taken various strategic initiatives in this regard.

The large corporate segment grew 23.1% yoy in FY10 and contributed 33.03% to the loan book. The power sector contributed a major proportion of incremental disbursement in the large corporate segment and accounted for 10.6% of the total advances portfolio of the bank as of Sept 30, 2010. Going forward, we expect this trend to continue as major chunk of sanctions pending disbursement to the power sector.

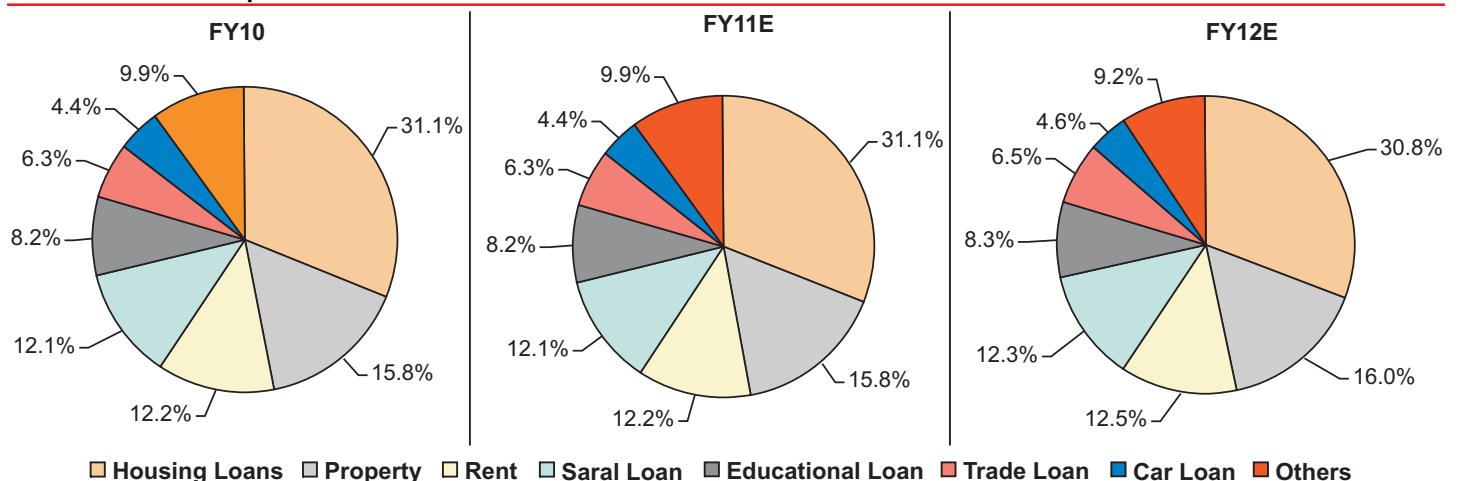
Industry-wise exposure	Sep-10	FY2010
Power (Infrastructure)	10.6%	10.3%
Basic Metal & Metal products	7.6%	6.4%
Infra-Others	6.2%	5.0%
Engineering Products	4.2%	4.4%
Tele-communication	2.9%	2.3%
Chemical	2.4%	2.5%
Textiles	2.2%	2.6%
Food Processing	1.4%	1.6%
Cement	0.5%	0.5%
Mining & Quarrying	0.1%	0.1%
Corporate- Others	11.7%	11.0%
Total-Corporate (Small, Medium & large)	49.8%	46.5%
Other than Corporate (Small, Medium & large)	50.2%	53.5%

(Source: Company & Keynote Capitals Institutional Research)

In retail loans, the bank is focusing more on housing loans, auto and education loan segments, as they are high-yielding assets with relatively lower risk profile. The bank's exposure in unsecured personal loans is very low as it contributes only 2.4% to the total advances portfolio as of 2QFY11.

Chart 9

Retail Loan- Breakup



(Source: Company & Keynote Capitals Institutional Research)

The emphasis to augment the loans under various retail loan schemes to cater to the personal, consumer & business needs of all sections of the society is undertaken by the bank. It launched the Housing Finance Scheme in 2HFY11 for NRI/PIO & Premium Housing Finance Scheme for HNIs and tie-up arrangements with leading auto manufacturers for financing their vehicles under "All Bank Commercial Vehicle Finance" to boost housing and auto loans. It has 126 Retail Banking Boutiques (RBBs) all over

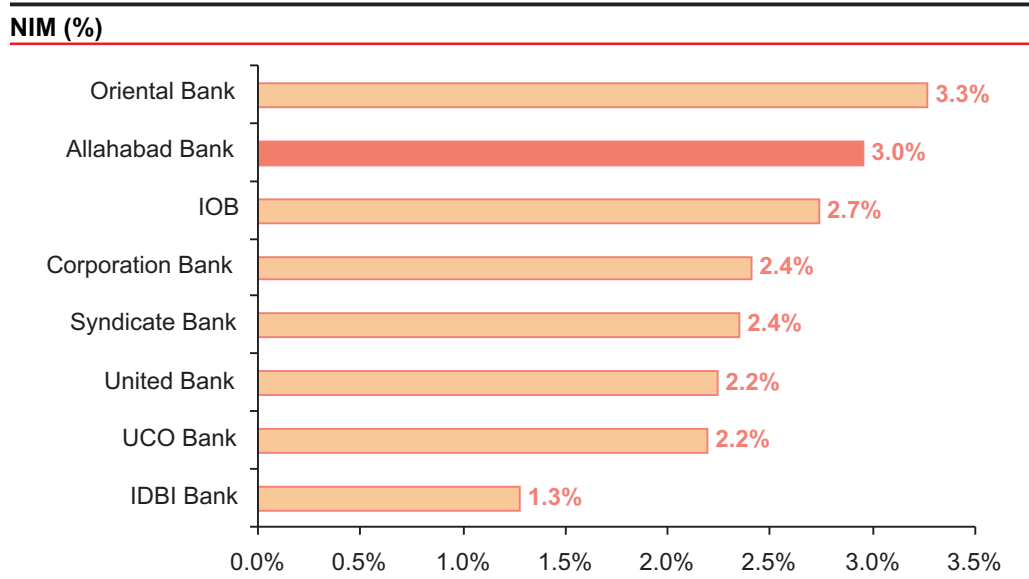
the country and has opened 27 Central Retail Banking Boutiques (CRBBs) for easy processing & disbursement of the Retail loans with strong operational guidelines & efficient manpower. Due to certain measures in place, it is expected that there will be around 31.4% growth in retail loans during FY11E.

4. Efficient Asset-liability management leading to improvement in margins

Liquidity conditions became tight in the month of May 2010 consequent to the transfer of liquidity from the markets to the government in the wake of the 3G/BWA auctions. Since then, liquidity conditions have generally remained in the deficit mode, which is consistent with the monetary policy stance of the Reserve Bank. Policy interest rates have been raised five times since the beginning of March 2010. Currently interbank liquidity is not good due to slower government spending, festive season withdrawals; situation will remain tight for shorter duration on account of the IPOs, which can see huge withdrawals from the system in few weeks. Money market instruments and short term yield continued to remain at elevated levels as liquidity situation remains tight.

The maturity pattern of the bank's deposits as of FY10 indicates that 48.9% of its deposits are pegged for the long term (more than one year), giving major benefit in the rising interest rate scenario. Further, it has excess liquidity which is currently deployed in low-yielding short term securities. Re-deployment of these funds will result in improvement in margins. Hence, an analysis of the bank's assets-liability position shows that the margins will be sustained around 3% in future i.e. above industry average and most of its peers.

Chart 10



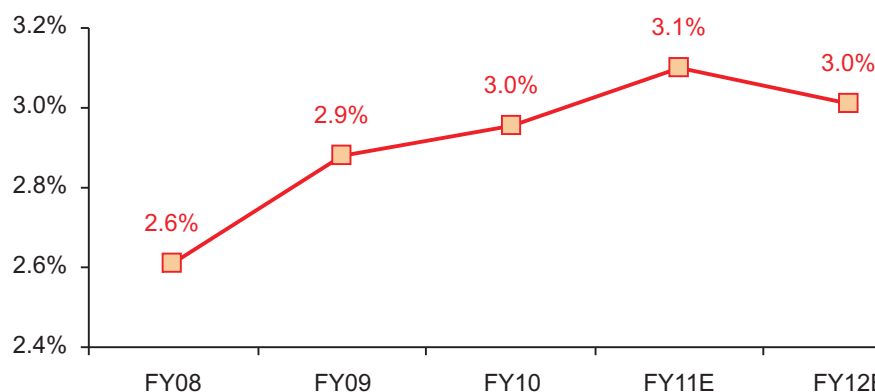
(Source: Company & Keynote Capitals Institutional Research)

The bank has adopted the strategy wherein the borrowings are increased from overseas and thus taking advantage of cheaper cost available there to expand their international business to maintain the cost of funds.

The bank's NIM has improved to 3% in FY10 from 2.6% in FY08 and is expected to be maintained around 3% in FY11-12E, mainly on account of shift towards the high yielding retail and SME & MSME segment, effective asset-liability management, cheaper cost of overseas funds, improvement in CD ratio and stability in its CASA ratio. Further, improvement in NIM will be there due to base rate implementation where the loans will be re-priced, enabling the bank to earn higher income on funds given to corporate.

Chart 11

NIM (%)



(E: Keynote Capitals Institutional Research Estimates)

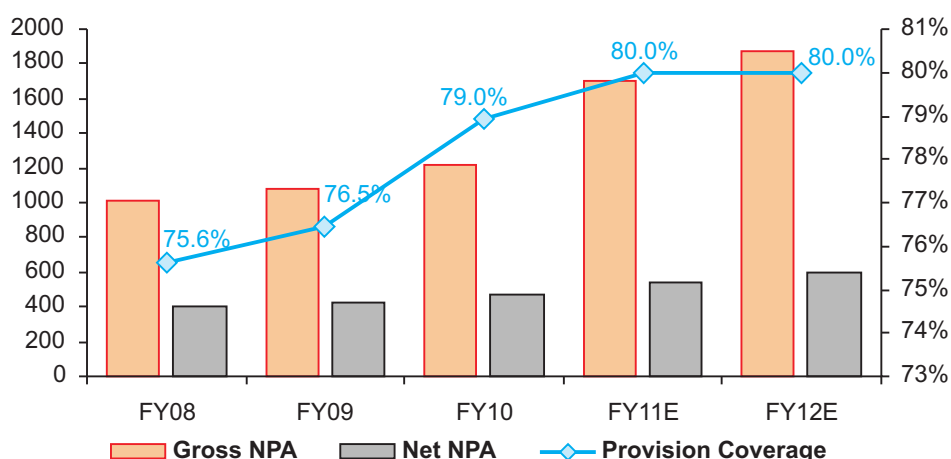
5. Strong Asset Quality

The asset quality of the bank is comfortable with gross and net NPA ratios of 1.8% and 0.6% respectively as of Sept 2010. Aggressive write-offs over the past few years have helped the bank steadily reduce gross NPAs to 1.7% in FY10 from 2.1% in FY08. Provision coverage stands at 81.02% including technical write-offs well above RBI's mandate of 70%. We expect the same to continue and the gross NPA ratio to maintained around 1.8% & ~1.7% in FY11E & FY12E respectively.

With the consistency in performance in profitability, the bank has been able to maintain a consistency in the health of its balance sheet too which can be seen from the net non-performing assets reducing to ~0.6% in FY10 from ~0.8% in FY08. We expect the same to continue and the net NPA ratio to stabilize at ~0.6% & ~0.5% in FY11E & FY12E respectively as there are better recoveries and up-gradation of accounts to aid in reduction of NNPA.

Chart 12

Asset Quality (₹Cr)



(E: Keynote Capitals Institutional Research Estimates)

The bank demonstrates steady improvement in its restructured assets portfolio. During Sept-10, the bank restructured around 3.6% of their loan book.

Particulars	10-Mar	10-Sep	% of Restructured asset	% of Total Advances	Slippage to NPA
Real Estate	678	501	16.50%	0.60%	53
Iron & Steel	338	369	12.20%	0.40%	11
Infrastructure	415	358	11.80%	0.40%	0
Agriculture	277	256	8.50%	0.30%	29
Engineering	231	227	7.50%	0.30%	104
Textiles	191	183	6.00%	0.20%	0
Housing	202	162	5.40%	0.20%	17
Sugar	188	143	4.70%	0.20%	0
Hotel	131	130	4.30%	0.20%	0

Source: (Company & Keynote Capitals Institutional Research)

The slippage ratio also improved to 1.6% in 2QFY11 from 2.0% in FY10. The bank is in the process of upgrading the technical slippages going forward and thereby will upgrade its loan book. Also the recovery ratio improved in Sept-10 to 46.8% from 41.9% in FY10. In FY11-12, it is expected that the slippages will be sustained at this level.

6. Comfortable CAR, high ROE to sustain future growth prospects

The bank is well capitalized and in a position to meet lending targets in coming years. At the end of 2QFY11, CAR stood at 13.49% and tier I ratio was 8.41%, well above the required regulatory limit. The bank is expecting ₹1000cr infusion from the government in the second half of this fiscal. The bank has a head room of ₹2600cr for raising capital through bonds or debentures, which would support the bank's growth prospects in future.

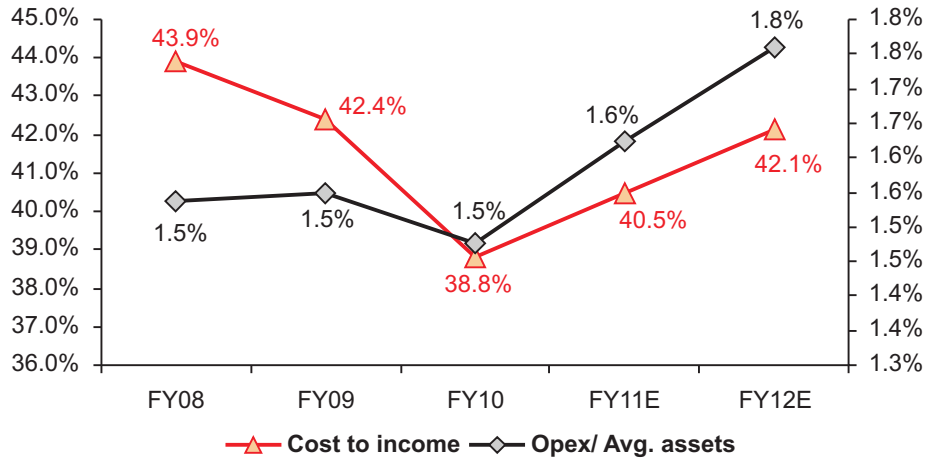
The bank's ROE and ROA will increase gradually in coming years because of strong growth in business and core operating performances. It had a return on average equity (ROAE) and return on average assets (ROAA) of ~19.1% and 1.1% respectively, in FY10 in comparison to ~13.9% and 0.85% respectively during FY09. We expect ROAE to improve to ~20.2% in FY11E and to ~20.6% in FY12E and ROAA around 1.1% in FY11-12E.

7. Well maintained cost leading to improvement in productivity ratios

The cost to income ratio of the bank has decreased to 38.8% in FY10 from ~47.7% in FY07. The bank has been able to manage its cost due to implementation of CBS across its branches and also by opening only 27 branches during FY10. Currently, CBS is applied in ~1,500 branches of the bank. With the strategy in place, to leverage the network of all the branches and also specialized branches for retail, MSME, & corporate credit, the bank have added about 100 new connections in the first 6 months and target further and also 250 new connections this fiscal both in mid corporate and large corporate sector. Above mentioned branch expansion strategies expected to take place and recruitment of employees over the next couple of years, we expect cost to income ratio at ~41% for FY11-12E.

Chart 13

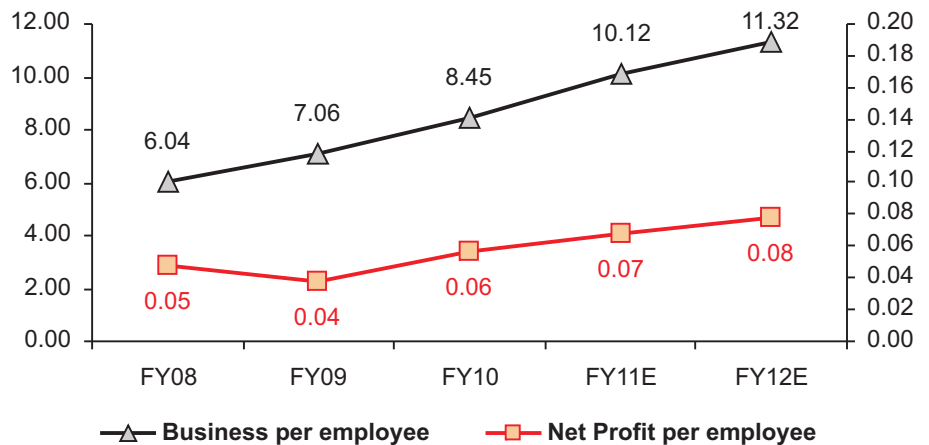
Cost Efficiencies



(E: Keynote Capitals Institutional Research Estimates)

Chart 14

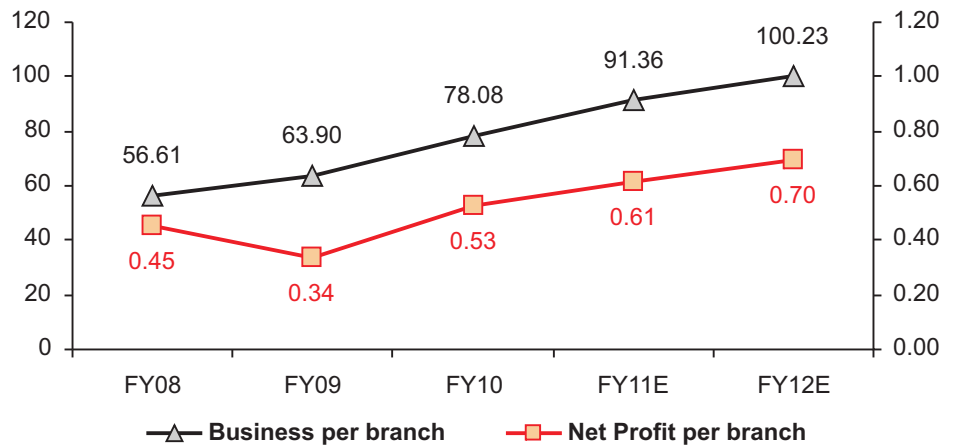
Employee Productivity Ratios (₹Cr)



(E: Keynote Capitals Institutional Research Estimates)

Chart 15

Branch Productivity Ratios (₹Cr)



(E: Keynote Capitals Institutional Research Estimates)

Future Plans:

- The bank has planned to convert all its Branches/Offices into CBS System within December-10.
- Under Financial Inclusion Programme, it has planned to cover 2618 villages with a population of over 2000 by Mar-12 and another 15549 villages with population of less than 2000 by 2014-15 through Business Correspondents and would also launch 16 Mobile Banking Vans with ATM facility for villages having population over 2000 within the current financial year.
- To open 21 Rural Self Employment Training Institute (RSETIs) for Farmers pan India, out of which 11 have already been operationalized.
- To install 100 more ATMs during this fiscal, out of which 25 will have Biometric features to attract younger generation and 175 Biometric ATMs within FY11-12 in villages having population over 2000 under its Financial Inclusion Plan. It will also make arrangements to issue a 12 digit Unique Identification Number (UID) for its 24 million plus customers pan India based on Demographic and Biometric data through Unique Identification Authority of India.
- It has taken steps to open Foreign Branches in Dhaka (Bangladesh), Shanghai (China) and Kowloon (Hong Kong).

Concerns:

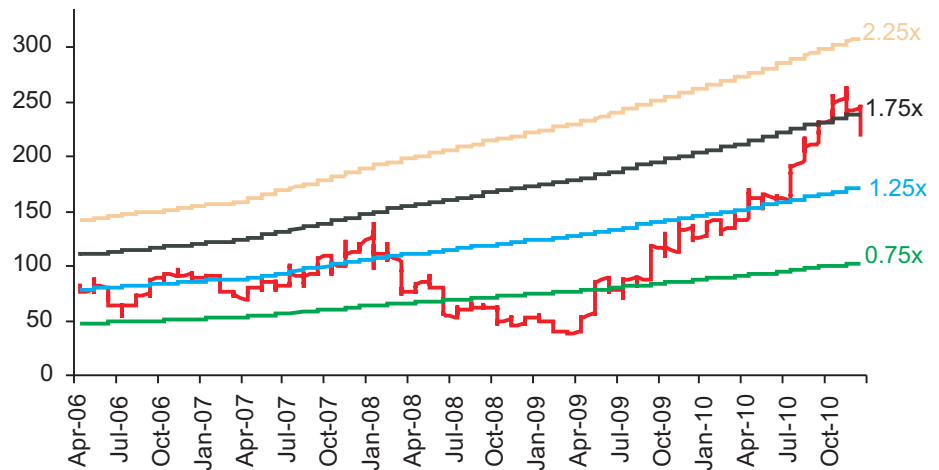
- Restructuring exercise in lending to different verticals under RBI's guidelines may lead to increase in NPAs and thus affecting the bank's asset quality. And increase in number of accounts turning into NPA's from the restructured portfolio would lead to increase in provisioning amount, having a negative impact on the profits.
- The bank can face stiff competition from other PSU private banks as it does not have significant presence in the southern and western region of India.

Valuations:

The bank's total business, distribution network and vast customer base in CASA-rich states enable it to leverage significant business opportunities in the current rising interest rate scenario. This along with a balanced loan portfolio and high proportion of low-cost funds will help the bank to earn better margins compared to its peers. And it is well positioned with good asset quality backed by provisioning of more than 70%. Considering the above factors, we initiate coverage on the stock arriving at a target price of ₹250 per share for the period of one year, with a 'Buy' recommendation. At CMP of ₹208.10, the stock is trading at 1.7x FY10 price to adjusted book and is expected to trade at 1.5x FY11E and 1.2x FY12E price to adjusted book.

Chart 16

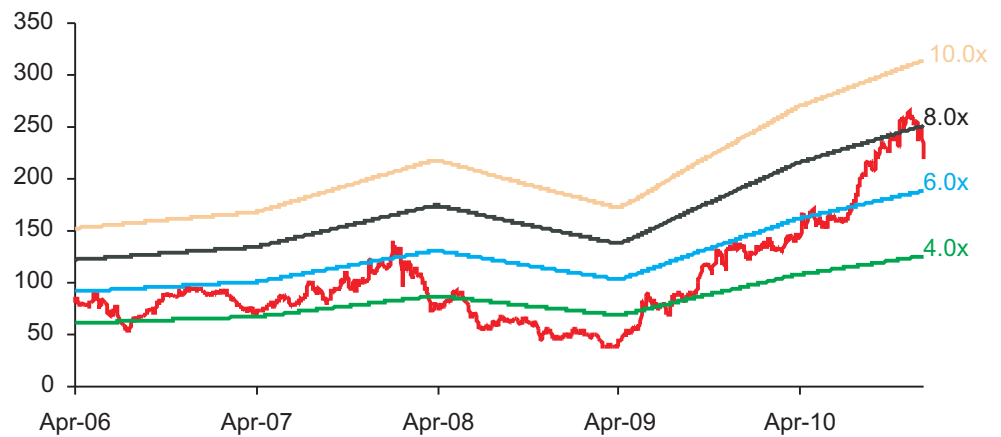
P/ABV Bands



(Source: Keynote Capitals Institutional Research)

Chart 17

PE Bands



(Source: Keynote Capitals Institutional Research)

Peer Comparisons

(₹Cr)

Particulars	Allahabad Bank	IDBI Bank	Syndicate Bank	UCO Bank	IOB
Net worth	6752.95	10163.00	5627.05	5210.54	7524.58
Deposits	106055.75	167667.00	117026.00	122415.55	110794.71
Advances	71604.87	138202.00	91450.00	82504.54	79003.92
Total Income	9885.11	4571.79	11259.78	10500.03	11562.38
Net Profit	1206.33	1031.00	813.32	1012.19	706.96
EPS	27.01	13.79	15.08	18.03	12.38
Book Value	151.17	113.08	100.06	65.74	116.54
NIM (%)	3.0%	1.3%	2.4%	2.2%	2.7%
Cost to income ratio	38.8%	40.2%	49.9%	48.0%	57.2%
ROAA (%)	1.1%	0.5%	0.6%	0.9%	0.5%
ROANW (%)	19.1%	13.1%	16.6%	19.4%	11.5%
Gross NPAs (%)	1.7%	1.5%	2.2%	2.0%	4.6%
Net NPAs (%)	0.6%	1.0%	1.1%	1.2%	2.5%
Provision Coverage Ratio	79.0%	74.9%	73.3%	50.3%	54.0%
Capital Adequacy Ratio	13.6%	11.3%	12.7%	11.4%	14.8%
Business per employee (₹)	8.45	24.17	7.47	9.01	6.89
Profit Per Employee (₹)	0.06	0.08	0.03	0.04	0.03
Market Price (₹)	208.10	154.50	120.50	113.75	138.95
Market Capitalization	9295.83	11201.25	6289.74	19330.22	7570.00
Paid up equity capital	446.70	725.00	521.97	1699.36	544.80

(Source: Company & Keynote Capitals Institutional Research)

Quarterly Performance Trends:

Strong footing in business:

The bank reported strong growth in business in 2QFY11: 36.8% yoy growth and 9.9% sequential growth in advances and 30.2% yoy growth and 4.9% sequential growth in deposits.

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Interest Earned	2008.19	2046.69	2107.76	2206.57	2403.12	2636.92
Interest on advances	1558.24	1581.04	1595.52	1663.67	1810.66	1984.05
Income from Investment	442.49	458.91	504.70	538.67	581.62	630.82
Interest on RBI balances & others	7.46	5.99	7.54	4.19	7.95	14.30
Others	0.00	0.75	0.00	0.04	2.89	7.75
Interest expended	1379.13	1443.44	1432.19	1463.96	1552.78	1667.72
Net Interest Income	629.06	603.25	675.57	742.61	850.34	969.20
Non-Interest Income	369.51	404.83	339.53	402.03	298.56	344.74
Net Total Income	998.57	1008.08	1015.10	1144.64	1148.90	1313.94
Operating Expenses	407.94	358.24	364.97	486.69	444.32	532.41
Staff costs	272.08	224.23	209.35	305.72	285.28	350.35
Other expenses	135.86	134.01	155.62	180.97	159.04	182.06
Pre-provisioning profit (PPP)	590.63	649.84	650.13	657.95	704.58	781.53
Provisions and Contingencies	39.63	193.86	246.28	297.15	151.05	271.44
PBT	551.00	455.98	403.85	360.80	553.53	510.09
Tax	248.14	122.39	58.48	136.29	206.39	107.52
PAT	302.86	333.59	345.37	224.51	347.14	402.57
EPS (₹)	6.78	7.47	7.73	5.03	7.77	9.01
Paid-up Equity Share Capital	446.7	446.7	446.7	446.7	446.7	446.7
Capital Adequacy Ratio						
% Gross NPAs to Gross Advances	1.8%	1.8%	1.8%	1.7%	1.5%	1.8%
% Net NPAs to Net Advances	0.4%	0.3%	0.3%	0.6%	0.4%	0.5%

Source: Company & Keynote Capitals Institutional Research

Enhanced Earning's quality:

Allahabad bank has reported robust operating performance with 60.7% yoy rise in NII at ₹969.20cr in 2QFY11 due to the NIM expansion to 3.34% from 2.84% in 2QFY10 and growth in advances. Interest earned was up by 28.8% to ₹2636.92cr and Interest expended was up by 15.5% to ₹1667.72cr. The Other income declined by 14.8% to ₹344.74 crore, as the trading profit decreased by 67.1% yoy. However, the fee income improved by 17.0%. As a result, Net Total income was up by 30.3% to ₹1313.94cr in 2QFY11. We expect improvement in the bank's core fee businesses such as commission, fee and brokerage as a result of continued focus on improving fee-based income, NII & NIM due to the credit uptake. Subdued treasury gains may offset growth in other income, leading to marginal growth in overall other income. The operating expenses increased in 2QFY11 on account of increase in employee cost which restricted the operating profit yoy growth to 20.3%. Further the provisioning was up by 40% yoy. We expect some pressure on net profit due to expected increase in loan loss provisioning expenses in coming quarters. However, its net profit is expected to grow at a healthy 20.9% CAGR over FY10-12E. In the nutshell, certain measures in place, the bank's earnings quality will enhance in future.

Financials

Profit & Loss Statements						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
Interest Earned	6225.27	7364.74	8369.21	10919.75	13090.48	
Interest on advances	4459.83	5494.39	6398.47	8327.53	10162.12	
Income from Investment	1723.53	1849.35	1944.77	2525.02	2870.32	
Interest on RBI balances & others	39.49	10.75	25.18	56.57	58.05	
Others	2.42	10.25	0.79	10.64	0.00	
Interest expended	4498.87	5206.07	5718.72	6959.23	8198.81	
Net Interest Income	1726.40	2158.67	2650.49	3960.52	4891.67	
Non-Interest Income	910.71	1141.92	1515.90	1384.28	1640.48	
Net Total Income	2637.11	3300.59	4166.39	5344.80	6532.15	
Operating Expenses	1157.58	1399.44	1617.84	2162.21	2752.73	
Staff costs	689.88	873.94	1011.38	1417.76	1797.37	
Other expenses	467.70	525.50	606.46	744.45	955.36	
Pre-provisioning profit (PPP)	1479.53	1901.15	2548.55	3182.59	3779.42	
Provisions and Contingencies	357.37	825.38	776.92	1078.21	1274.21	
PBT	1122.16	1075.77	1771.63	2104.38	2505.21	
Tax	147.41	307.17	565.30	623.23	741.15	
PAT	974.75	768.60	1206.33	1481.14	1764.06	
EPS (₹)	21.82	17.21	27.01	33.16	39.49	
Book Value (₹)	116.88	131.00	151.17	176.71	207.41	
Adjusted Book Value (₹)	88.27	102.00	121.20	143.15	167.25	

(E - Keynote Capitals Institutional Research Estimates)

Balance Sheets						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
Sources of Funds						
Paid-up Equity Share Capital	446.7	446.7	446.7	446.7	446.7	
Reserves	4774.35	5405.25	6306.25	7446.73	8818.28	
Net Worth	5221.05	5851.95	6752.95	7893.43	9264.98	
Deposits	71616.38	84971.79	106055.75	127266.90	146356.94	
Borrowings	1792.00	3848.94	5435.48	6124.72	6840.60	
Other Liabilities & Provisions	4314.09	2975.33	3455.03	3071.46	4224.43	
Total Liabilities	82943.52	97648.01	121699.21	144356.51	166686.94	
Applications of Funds						
Cash & Balances with RBI	6288.85	5115.38	7183.78	6999.68	8208.72	
Bal with Banks & money at call	753.24	1521.39	1984.45	2041.57	2052.18	
Investments	23400.25	29651.05	38428.62	40725.41	46834.22	
Advances	49720.47	58801.76	71604.87	92145.97	106948.76	
Fixed Assets	1071.47	1109.75	1118.27	1145.05	1169.35	
Other Assets	1709.24	1448.68	1379.22	1298.83	1473.73	
Total Assets	82943.52	97648.01	121699.21	144356.51	166686.94	

(E - Keynote Capitals Institutional Research Estimates)

Return Ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
Net Interest Margin (NIM)	2.6%	2.9%	2.9%	3.1%	3.2%
Yield on Advances	10.8%	10.9%	10.6%	10.7%	11.0%
Yield on Investments	8.2%	7.0%	5.7%	6.4%	6.6%
Cost of Deposits	6.7%	6.6%	6.0%	6.1%	6.2%
Return on Average Assets	1.3%	0.9%	1.1%	1.1%	1.1%
Return on Average Net worth/ROAE	20.1%	13.9%	19.1%	20.2%	20.6%
Dividend Yield (%)	1.7%	1.2%	2.6%	3.1%	3.6%
Effective tax rate	13.1%	28.6%	31.9%	29.6%	29.6%

(E: Keynote Capitals Institutional Research Estimates)

Efficiency Ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
NII/ Net total Income	65.5%	65.4%	63.6%	74.1%	74.9%
Non Interest Income/ Net total Income	34.5%	34.6%	36.4%	25.9%	25.1%
Interest expended/ Interest earned	72.3%	70.7%	68.3%	63.7%	62.6%
Cost to income	43.9%	42.4%	38.8%	40.5%	42.1%
Opex/ Avg. assets	1.5%	1.5%	1.5%	1.6%	1.8%
Credit Deposit ratio (C-D ratio)	69.4%	69.2%	67.5%	72.4%	73.1%
Incremental C-D ratio	69.8%	68.0%	60.7%	96.8%	77.5%
Investment Deposit ratio (I-D ratio)	32.7%	34.9%	36.2%	32.0%	32.0%
Incremental I-D ratio	38.6%	46.8%	41.6%	10.8%	32.0%
Credit/ Assets	59.9%	60.2%	58.8%	63.8%	64.2%
Loan growth	20.4%	18.3%	21.8%	28.7%	16.1%
Deposits/Assets	86.3%	87.0%	87.1%	88.2%	87.8%
Deposit growth	20.3%	18.6%	24.8%	20.0%	15.0%

(E: Keynote Capitals Institutional Research Estimates)

Per share Data

	FY08	FY09	FY10	FY11(E)	FY12(E)
EPS (₹)	21.82	17.21	27.01	33.16	39.49
Book Value (₹)	116.88	131.00	151.17	176.71	207.41
Adjusted Book value (₹)	88.27	102.00	121.20	143.15	167.25

(E: Keynote Capitals Institutional Research Estimates)

Valuation ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
P/e (x)	9.54	12.09	7.71	6.28	5.27
P/BV (x)	1.78	1.59	1.38	1.18	1.00
P/ABV (x)	2.36	2.04	1.72	1.45	1.24

(E: Keynote Capitals Institutional Research Estimates)

Growth ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
Adjusted Book value	25.0%	15.6%	18.8%	18.1%	16.8%
Advances	20.4%	18.3%	21.8%	28.7%	16.1%
Deposits	20.3%	18.6%	24.8%	20.0%	15.0%
Investments	24.8%	26.7%	29.6%	6.0%	15.0%
Net interest income	-1.4%	25.0%	22.8%	49.4%	23.5%
Non-interest Income	125.1%	25.4%	32.8%	-8.7%	18.5%
Net total Income	22.4%	25.2%	26.2%	28.3%	22.2%
Pre-provisioning profit	31.2%	28.5%	34.1%	24.9%	18.8%
Net profit	29.9%	-21.1%	57.0%	22.8%	19.1%
EPS	29.9%	-21.1%	57.0%	22.8%	19.1%

(E: Keynote Capitals Institutional Research Estimates)

Productivity ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
No. of employees	20186	20457	21123	21757	22464
% growth	-1.5%	1.3%	3.3%	3.0%	3.3%
No. of branches	2154	2260	2286	2411	2536
% growth	4.6%	4.9%	1.2%	5.5%	5.2%
Total Business (₹Cr)	121928	144415	178493	220263	254181
% growth	20.2%	18.4%	23.6%	23.4%	15.4%
Business per employee (₹Cr)	6.04	7.06	8.45	10.12	11.32
Business per branch (₹Cr)	56.61	63.90	78.08	91.36	100.23
Cost per employee (₹Cr)	0.06	0.07	0.08	0.10	0.12
Cost per branch (₹Cr)	0.54	0.62	0.71	0.90	1.09
Net Profit per employee (₹Cr)	0.05	0.04	0.06	0.07	0.08
Net Profit per branch (₹Cr)	0.45	0.34	0.53	0.61	0.70

(E: Keynote Capitals Institutional Research Estimates)

Asset quality

	FY08	FY09	FY10	FY11(E)	FY12(E)
Gross NPA (₹Cr)	1010.51	1078.24	1221.80	1698.16	1874.01
Net NPA (₹Cr)	399.81	422.11	470.15	543.41	599.68
Gross NPA ratio	2.0%	1.8%	1.7%	1.8%	1.8%
Net NPA ratio	0.8%	0.7%	0.6%	0.6%	0.6%
Provision Coverage	75.6%	76.5%	79.0%	80.0%	80.0%

(E: Keynote Capitals Institutional Research Estimates)

Asset Liability

	FY08	FY09	FY10	FY11(E)	FY12(E)
Credit-Deposit ratio	69.4%	69.2%	67.5%	72.4%	73.1%
Investment/Deposit	32.7%	34.9%	36.2%	32.0%	32.0%
Proportion of CASA deposits	36.0%	34.6%	34.5%	34.7%	34.9%

(E: Keynote Capitals Institutional Research Estimates)

Institutional Equity Team

Subramanyam Ravisankar
Director - Equities sravisankar@keynotecapitals.net +91 22 3026 6018

Analysts / Associates

Krishna Mahale krishna@keynoteindia.net +91 22 3026 6059
Denil Savla denil@keynoteindia.net +91 22 3026 6043
Hetal Shah hetal@keynoteindia.net +91 22 22694325
Ashwin Kumar ashwin@keynoteindia.net +91 22 30266059
Rohan Admane rohan@keynoteindia.net +91 22 2269 4322
Rajesh Sinha rajesh@keynotecapitals.net +91 22 30266057
Farha Shaikh farha@keynoteindia.net +91 22 30266057

Technical Analyst

Sanjay Bhatia sanjay@keynotecapitals.net +91 22 3026 6065

Dealing / Sales

Nilesh Dhruv Nilesh@keynoteindia.net +91 22 3026 6040
Puja Shah puja.shah@keynoteindia.net +91 22 3026 6041

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4th Floor, Balmer Lawrie Building, 5, J. N. Heredia Marg, Ballard Estate, Mumbai 400 001. INDIA
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